markets. The BET and Telamon case studies demonstrate that a strategic alliance can be a financing strategy in its own right.

Brian King, owner of Genesis Communications, Inc., a six year old, $4 million telecommunications company, planned to survive the early 1990's economic downturn by pursuing contracts with leading communications companies like Ameritech, AT&T and IBM. Said King, "We repositioned ourselves and aligned with (industry) leaders who will continue to grow. . . The recession has been tough on everybody. But on a scale of one to ten, with ten being the worst, the general market is at a six and a lot of minority business, particularly community-based minority business, is at an eight."[89]

The Wall Street Journal reported that in 1992, a number of small minority owned companies participated in a mentorship program with ten corporate sponsors, including Chrysler Corporation and General Motors. The minority owned companies received management, accounting and legal assistance from their mentors, along with additional contracts.[90]

Early stage companies have been known to obtain startup funding by selling equity positions to established corporations. This strategy provides the investor with access to a desirable product, technology or market. The startup acquires shared knowledge and infrastructure, which can be leveraged along with profits to acquire compatible businesses in the same or other markets. This strategy may be particularly appropriate for cross-cultural collaborations where Asian capital (both domestic and international)[91] can be combined with Black or Hispanic entrepreneurs, managers and technicians to serve consumer and business technology needs in minority markets.

STATE SPONSORED SOURCES

States have clear interests in encouraging minority capital formation and investment to promote funding for minority telecommunications enterprises. This funding can translate into economic vitality within minority communities, increased employment and tax revenue, and decreased social expenditures. Studies show that minority companies hire minorities disproportionately, and that telecommunications -- a strategic, high growth industry -- offers an opportunity to attract capital and commerce in the form of viable minority businesses.

89/ *Sandra Jones, Black-Owned Companies Fight to Keep Economic Hope Alive, Crain's Chicago Business, November 16, 1992, at 12 (Black-Owned Companies).*

90/ *Laurie M. Grossman, Expanding Horizons, The Wall Street Journal, April 3, 1992, at R5.*

91/ *Paul Hong and Suzanne J. Hee, Economic Diversity, Economic Diversity: Issues and Policies, 1994, at 50.*

The Maryland State Business Development Financing Authority (MSBDFA) was established in 1980 by the State of Maryland to provide creative financing to Maryland small businesses. MSBDFA offers assistance through four programs:

Equity Participation:	loans, loan guarantees, and equity for use in acquiring profitable businesses and franchises.
Contract Financing:	loans and loan and equity guarantees for working capital and equipment to begin and complete work on government or public utility contracts.
Long-Term Guaranty:	loan guarantees for working capital, equipment acquisition and installation, and real property improvements.
Surety Bond Guarantee:	direct issuances and guarantees of bid, performance or payment bonds for government or public utility contracts.

MSBDFA has received specific praise for its explicit direction and rationale; active lending to high growth businesses with economic development and job creation potential; financing of capable and experienced firms with initiative and financial controls; relatively large loans (up to $500,000); flexible loan terms; timely loan processing; staff with accounting and auditing skills; low loan default rates.[92/]

Since its inception, MSBDFA has provided more than 340 loans totaling $52 million to more than 230 small businesses. Eighty-three percent of the businesses financed (accounting for eighty percent of the financing dollars) were owned by minorities.[93/]

The Greater Detroit Minority Business and Industrial Development Corporation (Detroit BIDCO) provides debt and equity to minority owned businesses and nonminority businesses operating in depressed areas where lending and investment risks are deemed too high by commercial bank lenders. Discovering that "over twenty percent of black business startups nationwide utilize at least some bank credit to launch their ventures, [but] less than ten percent of the Detroit startups use bank credit," the Detroit BIDCO was founded to address the lack of credit for minority businesses in Detroit.

The Detroit BIDCO was organized pursuant to the State of Michigan BIDCO Act of 1986, which allocated $12 million to fund four minority BIDCO's. To qualify for funding of $1.5 to $3.0 million, prospective BIDCO operators must invest a minimum of $500,000 in equity capital (with more than fifty percent provided by minorities), and investors must be active (e.g., board members, employees or advisers). State funding is made in a fixed rate loan (at the U.S. Treasury Bond rate plus one percent), for ten years, with no principal payments before maturity. The loan can be converted into a grant based on a BIDCO's

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92/ *Minority Youth, supra note 62, at 65-67.*

93/ *Helping Minorities Finance The Dream, Franchising World, January/February 1994, at 57.*

success in meeting job creation and business expansion formulas. A BIDCO's initial capitalization must also include a long term loan from a private source for at least the amount of the state loan.

The Detroit BIDCO began operations in March 1990, with $600,000 in private equity, a $1.5 million loan from the Ford Foundation, $1.5 million in loans from other private sources, and a $3 million loan from the State of Michigan. In its first two years, the Detroit BIDCO closed on five investments and approved an additional five.[94]

ACQUISITION TEAMS/FUNDS

Acquisitions teams can present a collective depth of talent and breadth of experience that enhances the probability of raising financing, competing effectively, creating value and building long term business viability. Talented minority managers may benefit by pooling their capital, abilities, and experiences together with those of accountants, attorneys, brokers and financiers, to raise pools of capital to buy existing businesses that can be grown into larger operating and holding companies.

One company actively pursuing top managers to execute larger acquisitions is TSG Capital Fund II, L.P. ("TSG"). In January 1995, TSG closed on over $200 million from institutional sources to capitalize its mid-sized acquisition fund. Departing from most in the minority focused venture capital industry, TSG plans to provide most or all of the equity to retain controlling interest in acquisition teams with demonstrated capability to manage significant assets, but lacking capital and transactions experience. TSG plans to make six to ten investments, of $10 to $40 million for three to five years each, in private, middle market company transactions totalling $50 to $200 million.[95]

A rich source of entrepreneurial talent for TSG and others seeking telecommunications acquisition teams may be found in the strata of former and underemployed professionals of companies suffering downsizing from convergence within the telephone, computer, broadcasting, and other telecommunications industries. Acquisition teams made up of such individuals, together with their counterparts in buyout funds, represent the maturation of minority entrepreneurs and financiers and their business startup strategies and capabilities. These more sophisticated approaches may be required for technologically based, capital intensive industries such as telecommunications.

94/ *Minority Youth, supra note 62.*

95/ *Interview with Duane Hill, TSG Ventures II (June 1, 1994). National Association of Investment Companies, Perspective (February 1995) at 1.*

EXPANSION FINANCING STRATEGIES

FUND OF FUNDS

COMMUNITY BASED BANKING

INDUSTRIAL DEVELOPMENT BONDS

CORPORATE SPONSORED INVESTMENT COMPANIES

ASSET SECURITIZATION

FUNDS OF FUNDS

To access larger pools of institutional capital, the fund of funds strategy has been adopted by the minority financing community. Long in use by majority institutional investors, advisers and managers, at least two minority focused fund of funds are scheduled to begin operations: Fairview Capital, L.P. in Stamford, Connecticut; and Ark Capital Fund in Chicago, Illinois.

A fund of funds is a "wholesale" investment company, organized to attract large pools of mainly institutional capital for reinvestment in "retail" venture capital companies. Investing in venture capital companies rather than making direct investments, a fund of funds can act as a conduit for capital from sources too large to deal with the volume and transaction costs associated with direct small and mid-size investments, while diversifying investment risks and capitalizing more minority companies.

Typically, a fund of funds will invest in venture capital partnerships, which, in turn, purchase subordinated debt (usually with common stock warrants) or preferred stock (usually with conversion rights to common stock) in telecommunications and other companies. By investing in as many as eight to ten venture funds (each of which acquires interests in eight to ten portfolio companies), the fund of funds seeks to earn venture capital returns with maximum diversification to minimize investment risk.

The fund of funds would likely be organized as a limited partnership with a corporate general partner making investment and operating decisions. Limited partnership interests in the fund of funds would be structured to appeal to institutional investors such as state and local governments, pension funds, insurance companies, foundations, endowments, corporations, and high net worth individuals. Pension funds, especially, may have alternative or economically targeted investment objectives which a fund of funds may satisfy.[96/]

Minority focused funds of funds currently being structured are seeking commitments in the $200 to $400 million range with closings planned once $100 million or more is committed. At this time, no fund of funds emphasizes investments in minority telecommunications companies. The expected growth of the telecommunications industries and the capital demand to support that growth may result in a fund of funds focused on minority telecommunications companies.

96/ *Fran Hawthorne, Social Investing Gets Down to Business,(Institutional Investor, September 1993, at 104 Social Investing).*

COMMUNITY BASED BANKING

Commercial banks are important financial and economic intermediaries. Their roles include collecting deposits, reallocating funds into loans and investments, and channelling community and economic growth. A focused bank role in the financing and support of local community development is characterized as "community reinvestment."[97] Commercial bank obligations to enhance community and economic reinvestment were clarified in 1989 under provisions of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), "(b)ut while the [Community Reinvestment Act of 1977] has been used to obtain inner-city lending commitments from banks, much of the money has been targeted for housing, with little going towards small businesses."[98]

To encourage greater community reinvestment, the Office of the Comptroller of the Currency's (OCC) Community Development and Investments Program allows national banks to make direct equity and/or debt investments in community development corporations, community development projects, and business ventures serving community or public purposes. The Program allows national banks to (1) establish wholly owned community development corporations (CDCs), (2) form and capitalize multibank community development corporations, (3) invest in existing community development corporations or their projects, and (4) invest in qualifying community development projects through limited partnerships. Since the Program's inception in 1965, the OCC has approved more than 225 community development investments involving more than 640 national banks.[99] National banks, bank holding companies, and some state chartered banks are also authorized to own and invest in SBICs and SSBICs. This provides banks with access to low cost government funds for long term lending to businesses.

According to Harvey Koizim of the Yale Law School, "most financial institutions are not approaching community reinvestment as a profit center but as something they have to do to comply with regulations."[100] Koizim recommends that banks assess community needs, develop affirmative marketing plans, and put more minorities on their boards of directors and into management.

97/ *Office of the Comptroller of the Currency, Community Development Finance: Tools and Techniques for National Banks (March 1989) at 3.*

98/ *Peter Pae, Closing the Money Gap-Home Equity, The Wall Street Journal, February 19, 1993, at R14.*

99/ *Office of Comptroller of the Currency, Community Development Corporations & Investments Directory (December 1991) (Community Development Directory).*

100/ *Vanessa Bush, The Business Learns the Art of CRA, Savings Institutions, June 1992, at 18.*

By financing minority telecommunications enterprises, Koizim's recommendations to financial institutions could prove especially rewarding. Given telecommunications' strategic importance, its growth prospects, spectrum values, and minority ownership incentives, telecommunications focused CDCs and SSBICs, employing professional investment managers experienced in minority enterprise development, would earn their bank sponsors CRA credits and an opportunity for growth returns.

INDUSTRIAL DEVELOPMENT BONDS

Industrial development bonds (IDBs) are also effective financing vehicles which are currently underutilized by minority companies.[101] IDBs exist to promote economic development, create employment, facilitate job retention, and broaden the tax base for issuing locales. State and local industrial and economic development authorities can provide details on IDBs.

IDBs offer long term, low cost, fixed rate debt financing. These bonds are priced less than a percentage point above comparable U.S. Treasury Bonds, about three percentage points below taxable corporate bonds, and are backed by the implied credit and due diligence of the issuing municipality. They can be taxable or tax-exempt, depending on municipal regulations regarding the application of proceeds. Although technically long term debt, favorable IDB terms simulate equity without the return, ownership and control requirements. The bonds, issued in amounts of $100,000 to $10,000,000 and above, are purchased and traded by banks, pension funds, insurance companies, foreign investors and others attracted to their yields and liquidity.

From 1987 to 1992, IDBs were estimated to have created 182,000 jobs, facilitated the retention of 169,000 more, and financed roughly 3800 projects.[102] In 1992, tax-exempt municipal bonds totaled $235 billion in 8500 municipalities, 6000 of which qualified as small issuers of $10 million or less.[103]

IDBs have been used by airlines, packaged goods companies, food franchises and retailers, among others, primarily to finance the construction of fixed assets sold or leased to the target company for the cost of the bond and its retirement. IDBs facilitate access to financing for firms that might not otherwise be able to invest in capital infrastructure. As a financing strategy, they appear particularly useful to expanding enterprises in moderate to large scale, capital intensive industry segments located in urban or rural distressed areas.

101/ *Telephone interview with Kenneth Glover, WR Lazard (June 23, 1994).*

102/ *Testimony of Congressman William J. Coyne, to the House Committee on Public Works and Transportation, Subcommittee on Economic Development (June 30, 1994) (Coyne Testimony).*

103/ *Coyne Testimony, supra note 102.*

Many minority telecommunications businesses (cable systems, personal communications networks, hardware manufacturers, telecommunications service companies) may well fit this description.

CORPORATE SPONSORED INVESTMENT COMPANIES

General Electric's Community Small Business Development ("CSBD") venture, a business unit of GE Capital Services provides debt and equity capital, advisory services, and training and technical assistance to small and medium size businesses in urban areas. This venture, created in 1993, places an emphasis on assisting minority and women owned companies. CSBD seeks to invest $50,000 to $5,000,000 per investment over five to seven years in startups with verifiable contracts, or in existing companies wishing to expand. While earning commensurate profits from this venture, GE expects to create growth and jobs throughout CSBD's targeted East Coast region, and provide a model for similar voluntary corporate initiatives.

Corporate investment companies like G.E.'s CSBD, sponsored by telecommunications firms, could adopt similar programs in the industries in which they are knowledgeable and active. In the process, sponsors would gain access to underserved markets, new products and services; earn commensurate profits for addressing unmet demands; augment capital for minority telecommunications companies; and make an affirmative statement regarding the possibilities of purposeful corporate citizenship.

ASSET SECURITIZATION

Asset securitization is a form of capital intermediation whereby high cost sources of credit are repaid by aggregating assets into large pools and selling them as debt or equity instruments to lower cost institutional and public market investors. The resulting financing savings are shared between intermediaries, investors and consumers of capital.

Securitization appears promising as a source of capital for lenders to minority companies. General market small business loans have recently been securitized on a limited basis.[104/] Minority small business loan securitizations (MSBLS) are also being structured to offer yields comparable to general market securities of equal quality and maturity. The result will be a mitigation in the high costs of numerous, small individual transactions by

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104/ *The Money Store and Fremont Capital Partners (both SBA preferred lenders) have securitized the non-SBA guaranteed portion of their minority small business loan portfolios. North Carolina and Florida are in the process of securitizing minority business portfolios in their states. The North Carolina Department of Economic Development has already sold a portfolio of HUD-derived minority small business loans.*

aggregating portfolios of loans into securities sufficiently large to appeal to institutional investors.[105]

An MSBLS intermediary (or "Master Trust") may pool and sell securities backed by minority small business loans to institutional investors. Because pools of small business loans are less risky than the individual loans, securities sold by the intermediary would be higher in credit quality and more marketable than the individual loans. The security would also carry lower valuation, structuring and transaction costs per invested dollar than numerous individual commercial loans.

The Master Trust could acquire minority small business loans from commercial banks, small business lenders and SSBICs who meet prescribed management and underwriting requirements (loan administration and servicing systems, income and default rates, origination and documentation standards, production, etc.) Previously issued, nonperforming loans could also be restructured to be credit worthy for pooling. Eligible loans may carry fixed or variable rates, secured by first or second liens on property of the borrower, collateral in the form of interest and/or principal payments, or the value of reinsurance against risk of default.

The Master Trust could issue securities offering interests in the cash flow and collateral of the pool. As the intermediary would pool loans for their earliest possible resale, and not purchase and hold loans or securities, its capital needs would be limited to startup and early operating financing, with revenue derived from transaction fees for structuring and selling MSBLS'.

Securitization increases liquidity in portfolios of lenders to minority companies, thereby increasing the overall supply of affordable long term debt to minority firms. Securitized minority small business loans could also help banks, insurance companies, pension funds, foundations, endowments and other institutional investors meet their economically targeted investment objectives.[106] This indirect form of financing would facilitate access by minority small businesses to otherwise unavailable sources of capital for investment in the telecommunications industries and elsewhere.

105/ *In addition, securitization of equity investments is contemplated to provide liquidity for SSBIC's, Fund of Funds, and other minority equity investors.*

106/ *Social Investing, supra note 96, at 99.*

PUBLIC MARKET FINANCING STRATEGIES

PRIVATE PLACEMENT/LIMITED PARTNERSHIP

TARGETED MUTUAL FUNDS

INITIAL PUBLIC OFFERINGS (IPOS)

PRIVATE PLACEMENTS/LIMITED PARTNERSHIPS

Contrary to its name, private placements can be organized and funded by public entities to include capital pools that aggregate limited partnership interests of individual investors. Such investments, however, are considered most appropriate for high net worth investors (e.g. wealthy professionals, businesspeople, entertainers, athletes). Such investors may in general have access to the requisite knowledge and possess a higher risk profile consistent with the volatility and return potential of private investing. High net worth investors would especially stand to benefit from the minority tax certificate benefits possible with telecommunications investments in broadcasting, cable, personal communications networks, and future applications.

A Los Angeles investment fund, Pine Cobble Partners, seeking to raise $25 million for investment in minority owned companies from institutional sources, raised more than $10 million of its target in increments of $100,000 or more from individual minority investors. One investor, a successful businessman, committed $100,000 "to give young black entrepreneurs the kind of break that too rarely came his way."[107/] A triple focus on minority companies in the telecommunications industries seeking public financing could offer such potential.

TARGETED MUTUAL FUNDS

Black Entertainment Television is believed to have attracted significant numbers of first time and minority purchasers of its stock with its 1991 initial public offering. BET's experience may portend the positive outcomes of combining rising minority populations and their incomes with a growing ability by minority companies to create profits, dividends and value. According to Certified Financial Planner, Cheryl R. Holland:

> For most investors, stock selection is primarily a financial decision. Yet a growing number of people also want their investments to be consistent with their personal values...Recent figures peg investments with some kind of ethical criterion at over $550 billion.[108/]

"Ethical" investment criteria already include "the hiring and promotion of women and minorities."[109/] As the scope of minority economic development continues to broaden to include minority business ownership, it is not difficult to project an interest by socially

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107/ *John R. Emshwiller, Where The Money Is, The Wall Street Journal, February 19, 1993, at R8.*

108/ *Cheryl R. Holland, Socially-Conscious Investing, B&E Review, April-June 1992, at 30 (Socially-Conscious Investing).*

109/ *Socially-Conscious Investing, supra note 108, at 30.*

motivated investors in investing profitably while also supporting minority business ownership.

Mutual funds have been the favored instrument of social investors. Such funds provide professional investment management along with diversification to minimize investment risk. Our findings on the subject of a mutual fund focused on providing capital for initial public offerings of minority telecommunications companies generally concluded that such a focus would prove too narrow to provide acceptable diversification, quality, risk and volatility for unsophisticated first time investors. The concept was favored, however, when diversified to include initial public offerings for minority companies in telecommunications and other industries.

Mutual funds range in size from boutique funds managing $25 million or less, to a large number of funds with assets under $500 million, to the largest funds at more than $30 billion. Most funds invest in the shares of between 10 and 1200 different companies, with as few as fifty companies thought by the resource group to provide more than adequate diversification.

In testing the feasibility of a targeted minority IPO fund given its likely size and focus, we noted that both mutual funds managed by Chicago's Ariel Capital Corporation, a leading minority investment management firm, are capitalized in the $200 million range according to Ariel's Director of Research Franklin Morton.[110/] Further, in 1992, Pryor, McClendon, Counts, a leading minority investment banking firm, employed a highly specialized investment focus as underwriter and principal distributor for the Atlanta Growth Fund, a mutual fund of stocks of Atlanta based companies. The firm raised $6 million in a public offering, while, in the process "pioneering the method of using stocks in companies from a given city as an investment vehicle."[111/] These examples, along with BET's achievement, suggest that a workable minority focused, industry diversified IPO fund could be capitalized at a size which the market would support, and offer a specialized niche that professional money managers could find profitable.

As management and overhead could be prohibitive for such a fund as a standalone "boutique," a minority IPO fund would be more cost effective as a diversification vehicle for an existing fund, money management company or investment bank. These entities would already possess existing staff and business volume with which to share fixed operating costs. If necessary to enhance diversification in its earlier stages, such a fund could broaden its scope to include previously issued and traded stock of minority companies.

110/ *Telephone interview with Franklin Morton, Ariel Capital Corporation (June 21, 1994).*

111/ *Frank McCoy, Investment Firms Show What They Can Do, Black Enterprise, June 1993, at 178 (Investment Firms).*

INITIAL PUBLIC OFFERINGS (IPOs)

IPOs are an unconventional source of capital for minority companies but deserve further exploration. Minority companies that began privately under minority ownership, but then sold equity to the public include Black Entertainment Television Holdings (Washington, DC), Candy's Tortilla Factory (Pueblo, CO),[112] Envirotest Systems Corp. (Tucson, AZ), Granite Broadcasting Corp. (New York, NY), Latin Foods International (Los Angeles, CA),[113] Parks Sausages Company, (Baltimore, MD) and Threads 4 Life - D/B/A Cross Colours (Commerce, CA).

Some of these companies entered at the lower end of the IPO threshold of approximately $20 million, or listed themselves on the AMEX, NASDAQ or other exchanges tailored to smaller companies. Others, like BET, partnered with prominent corporations possessing ready access to "gatekeepers" to capital markets. All, undoubtedly, possessed the minimum requirements for a company to "go public": great ideas, a growth story, accomplished management, strong financials, sound controls and adequate physical infrastructure.

If minority telecommunications companies possessing the growth characteristics and capital needs inherent in technology driven industries are to thrive, they will undoubtedly seek IPO financing in growing numbers. Our research and the limited number of minority publicly owned companies raises questions as to the reception future minority IPO financings will receive from the existing public capital markets.

Greater public market access may exist, however, once minority investment banks diversify their practices from public finance, sales and trading, asset backed securities and investment management to include corporate private placements, underwritings, initial public offerings and mergers and acquisitions. Industry analyst William Michael Cunningham numbers minority-owned investment banking firms at 120. The Wall Street Journal notes, however, that few such firms have "been able to crack the most profitable part of the underwriting business--selling new stock issues for corporations, where fees range from six to seven percent of the money raised."[114]

Many minority investment banks have grown impressively due to the insistence by federal agency and municipal bond issuers that minority banks be included in their underwriting syndicates. Although some minority investment banks have participated with majority firms in underwritings and syndications, the sentiment of minority investment banker M.R. Beal seems to prevail, "We started in the municipal finance business, and we're

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112/ Public Companies Headed by Hispanics, Hispanic Business, June 1992, at 46 (Public Companies).

113/ Public Companies, supra note 112, at 46.

114/ Constance Mitchell, Black-Owned Investment Banks Gain Ground Even as Big Fees Prove Elusive, The Wall Street Journal, November 18, 1992, at C1.

committed to the municipal finance business. Eighty-five percent of our revenues come from that area. That may go down to sixty-five percent, but its always going to be the core of our business."[115]

The lack of a demonstrated corporate track record appears to hinder minority investment banks, as it does other minority firms, when it comes to accessing public equity markets. As Black Enterprise noted, "even companies much smaller than the one thousand largest public corporations ignore Black investment banks. This includes Black corporations. In October 1991, BET Holdings Inc. (went public)... but chose two white firms to co-lead its initial public offering. Its a Catch 22: The big firms are better known and have more contacts and capital."[116]

Minority companies also frequently serve "specialty markets" where asset appreciation is discounted by prospective purchasers. Lacking a market mechanism to structure and provide liquidity for their assets, such firms find it more difficult to project the hugely profitable exit scenarios which attract venture capital. Minority companies at the startup stage, therefore, often compare unfavorably to majority startups on an absolute basis, or to more conservative, later stage minority financings on a risk adjusted basis. In this way, inadequate access to public market financing may contribute to capital scarcity throughout the financing cycle. In contrast, where individual investment in IPOs and previously issued shares exist, venture capital investors are provided with exit mechanisms which fortify returns, spur institutional investment in venture capital and increase the volume of early stage venture transactions.

For these reasons, minority investment banks may find themselves increasingly in competition with vertically integrated minority venture capital firms moving beyond traditional early stage startup and acquisition financings into larger later stage private placements and public financings.[117] Minority venture capitalists and investment bankers may also find themselves working together with increasing frequency, as minority venture capitalists identify, syndicate and finance larger scale minority companies, while minority investment bankers guide these maturing companies to and through the public markets.[118]

By increasing their efforts to serve a minority IPO marketplace where they possess a natural competitive advantage, minority financial service firms at each investment stage would focus attention on and increase competition for minority corporate finance business. Once accomplished, this will increase the overall supply of capital to minority businesses.

115/ Sharon R. King, Black-Owned Municipal Firm M.R. Beal Moves Into Corporates, The Bond Buyer, August 31, 1992.

116/ Investment Firms, supra note 111, at 178.

117/ See TSG Ventures II, page 91.

118/ Black Entertainment Television and Envirotest Systems, to name two, received advice and/or financial support from minority venture capitalists prior to going public.

CONCLUSION

The telecommunications and information industries are some of the most dynamic and fast changing sectors in the United States and internationally. The worldwide market for information technology, products, and services currently stands at $853 billion, and worldwide investment in telecommunications infrastructure alone is expected to exceed $200 billion by 2004. The Administration strongly believes that the emerging National Information Infrastructure (NII) and Global Information Infrastructure (GII) hold significant economic and social promise for all U.S. citizens, as well as other nations and their citizens.

However, it is clear from the research and studies presented here that minorities must overcome real barriers as they seek to participate in these technology-based markets. This report focused upon one barrier in particular: access to capital. While access to substantial capital sources is key to entry and expansion in the telecommunications industry, minorities are less likely to receive financing from traditional sources, such as banks, than their White business counterparts, even when there is no difference in background. Moreover, minorities are even less likely to receive venture capital funding, which can provide start-up financing for smaller, innovative ventures as well as for larger startup enterprises.

In order to address these barriers, MTDP identified factors that can mitigate these problems as well as non-traditional strategies to access capital. Our research strongly suggests that higher education is a key factor in attracting financing from traditional sources or venture capital sources. In addition to identifying factors that can enhance minority capital access, MTDP offered a discussion of non-traditional financing strategies that can provide minority entrepreneurs with startup, acquisition, expansion and public market financing sources.

Capital access for minorities is only one major barrier to minority investment in telecommunications; other important barriers to minority participation exist. Current research by MTDP has explored the positive effects of education and training, employment and business selection on the ability of minorities to fully participate in technology based industries such as telecommunications. Clearly, a closer look at these factors and how they affect minority participation in telecommunications should be undertaken.

U.S. President Woodrow Wilson said in 1916: "America is not anything if it consists of each of us...(It) is something only if it consists of all of us." Rather than a world of "have" and "have nots," we can create a community in which the NII and GII will afford economic and social benefits to all people --- but only if the opportunity to participate is open to all. The government, private industry and non-profits must be committed to developing innovative ways in which minority access to capital can be enhanced.

APPENDIX A

VARIABLES USED IN THE BATES STUDY

EDUCATION

Ed2: For owners completing four years of high school, Ed2 = 1; otherwise Ed2 = 0.

Ed3: For owners completing at least one but less than four years of college, Ed3 = 1; otherwise Ed3 = 0.

Ed4: For owners completing four or more years of college, Ed4 = 1; otherwise Ed4 = 0.

MANAGEMENT EXPERIENCE

Management: The number of years an owner worked in a managerial capacity prior to owning his/her present business.

AGE OF OWNER

Age2: For owners between the ages of 35 and 44, Age2 = 1; otherwise Age2 = 0.
Age3: For owners between the ages of 45 and 54, Age3 = 1; otherwise Age3 = 0.
Age4: For owners 55 or older, Age4 = 1; otherwise Age4 = 0.

FIRM ACQUISITION TYPE

Ongoing: If the owner entered a business that was already in operation, Ongoing = 1; if the owner was the original founder of the business, then Ongoing = 0.

DEBT AND EQUITY

Debt: The amount of borrowed money used to start or become an owner of the business, measured in dollars.

Equity: Financial capital (other than borrowed money) used to start or become an owner of the business, measured in dollars.[1/]

1/ *The dollar value of business assets contributed by the owner at the point of business entry was also included as equity.*

Researchers use linear multi-variate regression analysis to estimate a statistical relationship between a dependent variable and a variety of explanatory variables. Regression analysis permits simultaneous weighing of a variety of factors which affect a dependent variable. The technique finds the set of weights for the explanatory variables that best fits the observed variation in the dependent variable. Multi-variate regression enables an analyst to sort out the effects of variables that directly measure credit risk such as experience, education, or personal wealth, from those that do not, such as race and gender. For example, to the extent that Blacks receive significantly smaller bank loans than non-Blacks after adequately controlling for credit risk, we see statistical evidence of discrimination.

TABLE 1[2]

Linear Regression Models: Debt Capital for Commercial Bank Loan Recipients (Only) Entering Business in the Period 1976-82

	White Firms		Black Firms	
	Regression Coefficient	Standard Error	Regression Coefficient	Standard Error
Constant	-8,261.060	12,118.279	14,386.918	10,834.467
Ed2	16,378.546	12,085.385	-2,151.482	10,355.462
Ed3	14,783.465	13,308.299	-13,375.31	11,107.711
Ed4	28,552.929*	12,363.037	27,110.584*	10,601.726
Management	-182.427	589.653	326.059	648.300
Equity	1.835*	0.042	1.164*	0.085
Age2	10,433.854	9,179.578	-8,963.618	9,101,468
Age3	4,869.243	11,003.469	-13,736.25	10,360,929
Age4	12,095.686	14,865.736	-14,487.14	13,533,935
Ongoing	14,127.628*	8,193.540	7,863.444	8,260,903
(N=)	1,419		714	
(R-square)	0.585		.238	
(F=)	220.390		24.410	

*Statistically significant at the alpha = .05 level.[3]

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[2] *The statistical tests referred to throughout this paper compare the size of a coefficient with its standard error. These comparisons yield "t-statistics." The larger the t-statistic, the less likely that there is no relationship between the dependent variable and the independent variable under consideration.*

[3] *If there were no relationship between the dependent variable — bank debt -- and an explanatory variable (i.e., the "true" coefficient = 0), we would expect to see a coefficient larger than the estimate less than five percent of the time.*

TABLE 2

Logistic Regression, Venture Capital (1) Versus Non-Venture Capital (0) Firms: Males Entering Business 1976-82.

Variable	Coefficient	Standard Error
Constant	3.226*	.031
Ed2	.222*	.008
Ed3	.192*	.008
Ed4	.278*	.006
Management	.358*	.005
Age2	.079*	.005
Age3	.311*	.006
Age4	.358*	.007
Minority Customers	.133*	.006
Family	-.022	.004
Ongoing	.158*	.005
Hispanic	-.123*	.014
Asian	-.312*	.016
African American	-.255*	.018

n=14,424
Likelihood Ratio 968
Chi-square 73,947.27

*Statistically Significant at the alpha = .01 level.

APPENDIX B

VARIABLES CONSTRUCTED FROM QUALITY MANAGEMENT INTERNATIONAL SAMPLE

DEPENDENT VARIABLES

Bank = If the owner received bank loans to finance the acquisition, Bank=1; otherwise Bank=0.

Venture = If the owner received venture capital to finance the acquisition, Venture=1; otherwise Venture=0.

Instit. = If the owner received institutional finance (either bank finance or venture capital) Instit.=1; otherwise Instit.=0.

EXPLANATORY VARIABLES

EDUCATION

Ed1 = If the owner graduated from college Ed1=1; otherwise Ed1=0.

Ed2 = If the owner attended graduate school Ed2=1; otherwise Ed2=0.

Ed3 = If the owner completed a graduate degree Ed3=1; otherwise Ed3=0.

PROFITABILITY

Profit = If the owner acquired a station that was profitable Profit=1; otherwise Profit=0.

New = If the owner built a new station, New=1; otherwise New=0.

LOCATION

South = If the owner acquired a station located in a southern state, South=1; otherwise South=0.[1/]

FIRM

Compage = The number of years that the company had been in business at the time of the acquisition.

Othstat = The number of other broadcast stations owned by the company at the time of the acquisition.

RACE

Black = If the principal owner of the station was black, Black=1; otherwise Black=0.[2/]

1/ *Southern states include Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia.*

2/ *The Quality Management sample is comprised almost entirely of black and Hispanic station owners. Statistically, the dummy variable for blacks compares them with non-black owners. If we were also to include a Hispanic dummy variable in our regressions, the few remaining observations for Asians and Native Americans, would be*

TABLE 1

Breakdown of Institutional Finance by the Profitability of the Station and Whether the Owner Obtained a Graduate Degree

Owner/Station	Profitable	Unprofitable	New
Graduate Degree	100% (n=3)	71% (n=7)	83% (n=6)
No Graduate Degree	69% (n=13)	47% (n=17)	22% (n=9)

n = number of observations. New = Construction Permit.

TABLE 2

Breakdown of Institutional Finance by Whether Owner Obtained Graduate Degree and Owned Other Broadcast Stations

Owner/Station	Other Stations	No Other Stations
Graduate Degree	71% (n=7)	78% (n=9)
No Graduate Degree	57% (n=7)	53% (n=36)

n = number of observations

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insufficient to produce reliable statistical comparisons.

TABLE 3

Logistic Regression: Dependent Variable Institutional Capital; (1) if Minority Broadcaster Obtained either Bank Loans or Venture Capital, (0) Otherwise.

	Model 1 Coefficients	Model 2 Coefficients	Model 3 Coefficients
Constant	.7199	.6689	.6371
	(.646)	(.550)	(.550)
Ed1	.4548		
	(.759)		
Ed3		1.4721**	1.3573*
		(.849)	(.872)
Profit	.6164	.8316	.8910
	(.943)	(.808)	(.822)
New	-1.4597**	-1.4776**	-1.4288*
	(.854)	(.862)	(.859)
South	-1.7428**	-1.0869*	-1.1939**
	(.870)	(.655)	(.689)
Black	.6566		
	(.812)		
Compage	.0002		
	(.033)		
Othstat	.4836		.2699
	(.556)		(.519)
Observations	49	50	50
Log Likelihood	-28.746	-29.348	-29.212
Percent Correctly Predicted	65.3%	66.0%	68%

Standard Errors in Parentheses

** Statistically Significant at the alpha = .05 level.
* Statistically Significant at the alpha = .10 level.[3]

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[3] *Similar results are obtained when Ed2 replaces Ed1 in the regression. In Model 3, New was statistically significant at the alpha = .06 level. The coefficient on New should be interpreted as a comparison between owners building new stations and those acquiring unprofitable existing stations. In other words, new station owners are less likely to obtain institutional financing than owners acquiring unprofitable properties, making the result all the more striking. The coefficient on the "Black" dummy variable is a measure of how Black owners fared relative to all other minorities in the sample.*

TABLE 4

Logistic Regression: Dependent Variable Venture Capital

	Model 1 Coefficients	Model 2 Coefficients
Constant	-2.1391**	-2.5050**
	(.865)	(.893)
Ed3	2.5625**	2.3371**
	(1.01)	(.975)
Profit	1.8982**	1.8344**
	(1.04)	(1.01)
New	-.4997	-.1704
	(1.15)	(1.14)
South	-.7345	-.8781
	(.871)	(.920)
Compage	-.0255	
	(.034)	
Othstat		.5457
		(.617)
Observations	49	50
Log Likelihood	-19.905	-19.936
Percent Correctly Predicted	79.6%	80.0%

Standard Errors in Parentheses.

** Statistically Significant at the alpha = .05 level.

MINORITY BROADCASTER
DISCUSSION PLAN
MAY 18, 1994

SUBJECT NAME:
COMPANY:
POSITION:

LEAD STATEMENT: Thank you for taking my call. I am working on a study which will determine how capital availability may be enhanced for minority owned businesses in the telecommunications industries. I would appreciate just a little of your time to answer a very few questions which may assist yours and other minority owned companies access debt and equity capital in the future.

1. What was the name and location of the last broadcast station you acquired?

2. When did this latest acquisition occur?

3. What type of station was acquired -- UHF, VHF, AM, FM?

4. At the time of your last acquisition,
   A. what was the national ranking of the station's market?

   B. what was the station's ranking within its market?

   C. how many stations were in this market?

   D. what were the station's yearly revenues?

   E. was the station profitable?

   F. how long had the acquiring company been in business?

   G. how many other stations did the acquiring company already own? What types of stations were these (UHF, VHF, AM, FM)?

5. Did you receive bank loans (or any other form of bank financing) to finance the acquisition?

   A. If yes, what was the total amount of bank financing?

6. Did you use venture capital to finance the acquisition?

   A. If yes, what form did the venture capital investment take? debt, equity, both?

   B. What was the amount of the venture capital financing?

7. Did you receive investment capital from friends, family, or acquaintances to finance the acquisition?

   A. If yes, from which?

   B. If yes, how much?

8. Did you receive investment capital from any other sources to finance the acquisition?

   A. If yes, from which?

   B. If yes, how much?

9. Did you use personal savings or other capital belonging to you to finance the acquisition?

   A. If yes, how much?

10. How old was the principle owner of the station at the time of the acquisition?

11. What was the highest level of education attained by the principle owner at the time of the acquisition? (1) attended high school, (2) graduated high school, (3) attended college, (4) graduated college, (5) attended graduate school, (6) completed graduate degree).

CLOSE: Thank you for your time. You've been most helpful to our project. We appreciate your participation. Thank you again.

APPENDIX C

RESOURCE GROUP PARTICIPANTS

Our sincere appreciation to the following individuals whose contributions were invaluable to this report.

Peter Baumgarten - Internal Revenue Service
Lewis Byrd - Opportunity Capital Corporation II, L.P.
John Carter - M.R. Beal
Don Cornwell - Granite Broadcasting Corp.
John Cox - U.S. Small Business Administration
David Crawford - Internal Revenue Service
Michael Dowd - U.S. Small Business Administration
Kenneth Glover - W.R. Lazard
Donald Greene - Connecticut Greene Ventures, L.P.
Allen Hammond - New York Law School
Duane Hill - TSG Ventures, Inc.
Shira Kalish - National Urban League
William Lewis - Morgan Stanley
Pluria Marshall - National Black Media Coalition
Rowland Martin - Federal Communications Commission
Raymond McGuire - Merrill Lynch
Franklin Morton - Ariel Capital Corporation
John Oxendine - Broadcast Capital Fund, Inc.
Carr Preston - Allied Financial Corporation
Peter Thompson - Opportunity Capital Partners II, L.P.
Walter Threadgill - Minority Broadcast Investment Corporation
Eric Von Hendrix - GE Capital
Linda Williams - Congressional Black Caucus Foundation, Inc.